TO THE HONORABLE SCOTT C. CLARKSON, UNITED STATES BANKRUPTCY COURT JUDGE, THE OFFICE OF THE UNITED STATES TRUSTEE AND ALL INTERESTED PARTIES:

Richard A. Marshack, in his capacity as Chapter 11 Trustee ("Trustee") for the bankruptcy estate ("Estate") of The Litigation Practice Group P.C. ("Debtor"), respectfully submits this omnibus reply ("Reply") in support of the Motion to Surcharge Secured Creditors to Pay Management Fees and Expenses of Resolution Processing, LLC ("Motion") to the: (1) Response and Reservation of Rights Regarding Trustee's Motion to Surcharge Secured Creditors to Pay Management Fees and Expenses of Resolution Processing, LLC, filed by the Official Committee of Unsecured Creditors ("Unsecured Creditors Committee"), on October 5, 2023, as Dk. No. 557 ("Objection"); and 10 (2) Reservation of Rights Regarding Trustee's Motion to Surcharge Secured Creditors to Pay Management Fees and Expenses of Resolution Processing, LLC, filed by OHP-CDR, LP ("OHP-CDR") and PurchaseCO 80, LLC ("PurchaseCo"), on October 5, 2023, as Dk. No. 558 ("Non-Opposition").

I. **Summary of Argument**

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A bankruptcy trustee may recover from property securing an allowed secured claim the reasonable, necessary costs and expenses of preserving, or disposing of, such property to the extent of any benefit to the holder of such claim. As detailed in the Motion, Trustee employed a manager to operate Debtor's business and supervise operations until the sale could be consummated. The services rendered by the Manager were the reasonable, necessary costs and expenses of preserving the value of the collateral. Despite this, the Unsecured Creditors Committee filed an Opposition arguing that the Motion modifies the terms of the Management Order² because Mr. Squires will not be required to file an administrative claim before receiving payment on account of his services.

The Management Order, however, does not contradict the requested relief in the Motion. Simply put, the Management Order does not forbid Mr. Squires from payment pursuant to the Motion and surcharge is appropriate as an alternative form of payment pursuant to 11 U.S.C.

² All undefined terms are used as defined in the Motion.

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§ 506(c). If granted, the need for Mr. Squires to file and obtain an allowed administrative claim will be obviated. Some but not necessarily all administrative claims may form the basis of a surcharge. But, in either event, the allowance of an administrative claim is not a prerequisite to seeking a

surcharge.

In addition, OHP-CDR and Purchase Co filed a Non-Opposition to the Motion, identifying that neither entity objects to the Motion so long as the collateral does not constitute the receivables allegedly acquired pre-petition by PurchaseCo. Thus, Trustee respectfully requests that this Court grant the Motion and allow Trustee to surcharge secured creditors so that he may immediately pay the Manager's fees in the amount of \$163,960.00 and expenses in the amount of \$39,296.81.

II. Legal Argument

Α. The Manager's fees and expenses were reasonable and necessary and provided a quantifiable benefit to the Secured Creditors and do not contradict the Management Order.

11 U.S.C. § 506(c) provides that a trustee may "surcharge" the collateral of a secured claimant to pay for the reasonable, necessary costs and expenses of preserving or disposing of the collateral. See 11 U.S.C. § 506(c) ("[t]he trustee may recover from property securing an allowed secured claim the reasonable, necessary costs and expenses of preserving, or disposing of, such property to the extent of any benefit to the holder of such claim"); see also In re Glasply Marine *Indus., Inc.*, 971 F.2d 391, 393 (9th Cir. 1992) (noting that § 506(c) allows a trustee to recover reasonable expense of preserving property to the extent of any benefit to the holder of a secured claim).

In this case, the Unsecured Creditors Committee filed the Opposition, arguing that Mr. Squires should not be entitled to a surcharge because he is entitled to file an administrative claim in this case pursuant to the Management Order. See Opposition, Dk. No. 557, pgs. 2:12-3:14. As a result, the Opposition contends that the Motion attempts to modify the Management Agreement and Management Order to provide Mr. Squires with immediate payment. *Id.* at pg. 3:5-8.

A closer inspection of the Management Order reveals that the requested relief in the Motion 28 does *not* contradict or modify the terms of the Management Order. The Management Order states as 10

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including the date of his resignation on July 20, 2023, and shall be entitled to file an administrative

claim in the within case." See Management Order, Dk. No. 412, pg. 2:8-10 (emphasis added). As

such, the language in the Management Order authorizes Mr. Squires to *file* an administrative claim.

It does not require him to do so. Moreover, it does not forbid Mr. Squires or Resolution Processing,

LLC ("Manager") from receiving payment on account of a surcharge to pay the reasonable, 6

necessary costs and expenses of preserving the collateral pursuant to 11 U.S.C. § 506(c). If the claim

is paid via the requested surcharge, the need to file a motion for allowance of an administrative claim

9 will be obviated.

> As detailed in the Motion, the services rendered by the Manager were the reasonable, necessary costs and expenses of preserving the collateral under both the objective and subjective tests. No party has argued otherwise. Indeed, the Opposition does not argue that Trustee is not entitled to surcharge these costs and expenses. It also does not argue that these costs and expenses are not administrative expenses. Rather, the Unsecured Creditors Committee unduly focuses on the immediate payment to the Manager, who exerted considerable effort to maintain, upkeep, and continue Debtor's business. Without the work completed by the Manager, it is unlikely that Debtor's business would have sold and there would not have been any money to fight over. Because the legal standard for a trustee to "surcharge" the collateral of a secured claimant to pay for the costs and expenses of the manager has been met, and nothing in the Opposition argues the standard has not been met, surcharge and payment to the Manager pursuant to the Motion is the right thing to do considering the benefit provided. Thus, the Motion should be granted in its entirety.

It is unclear whether the Unsecured Creditors Committee has В. standing to oppose the Motion.

Surcharge is not an administrative claim but an assessment against a secured party's collateral. Debbie Reynolds Hotel & Casino, Inc. v. Calstar Corp. (In re Debbie Reynolds Hotel & Casino, Inc.), 255 F.3d 1061, 1067 (9th Cir. 2001). A surcharged amount therefore does not come out of the debtor's estate, but rather comes "directly from the secured party's recovery." Id. Consequently, § 506(c) expenses do not fall within the priority scheme of the Bankruptcy Code. Id. 6

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These expenses "are paid first out of the proceeds of the sale, before a secured creditor is paid." *Id.* (quoting United States v. Federal Deposit Insurance Corporation, 899 F. Supp. 50, 55 (D.R.I. 1995);

see also In re Anderson, 66 B.R. 97, 99 (9th Cir. B.A.P. 1986) ("We read the Code to provide for

payment of the trustee's direct costs of sale out of the proceeds of the sale before distribution to the

5 secured creditors").

Indeed, "only a party who is 'directly and adversely affected pecuniarily' by an order of the bankruptcy court may appeal." In re Debbie Reynolds Hotel & Casino, Inc., 255 F.3d at 1066 (quoting In re P.R.T.C., 177 F.3d 774, 777 (9th Cir. 1999). To satisfy the standing requirement, the order must "diminish the appellant's property, increases its burdens, or detrimentally affects its 10 | rights." In re P.R.T.C., 177 F.3d at 777; see also In re Wrightwood Guest Ranch, LLC, 585 B.R. 600, 605 (C.D. Cal. 2018) (declining to answer whether the unsecured creditors committee met prudential standing requirements to appeal a surcharge order but stating that, if forced to rule on the issue, that the committee would not have standing to appeal the subject surcharge order because it was not an "aggrieved" party).

In this case, it is unclear whether the Unsecured Creditors Committee has standing to oppose 16 the Motion. The Motion was filed without prejudice to Trustee seeking additional surcharges in the future. The Committee's response also does not establish that either its constituency's or its 18 | counsel's claims would form the basis for a surcharge. Lastly, the requested surcharge is an assessment against the secured parties' collateral and any approved surcharge is not the property of Debtor's estate. The Unsecured Creditors Committee thus would not appear to be adversely affected by the Motion.

III. Conclusion

For the foregoing reasons, Trustee requests that the Court enter an order:

- Granting the Motion in its entirety; 1)
- 2) Surcharging the proceeds of sale (without regard to the priority of the various alleged Secured Creditors or the allowance of their claims) for the following fees and expenses:
 - \$163,960.00 for fees for services rendered by Resolution Processing, LLC a.

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is: 870 Roosevelt, Irvine, CA 92620.

A true and correct copy of the foregoing document entitled: <a href="TRUSTEE'S OMNIBUS REPLY TO (1) RESPONSE AND RESERVATION OF RIGHTS REGARDING TRUSTEE'S MOTION TO SURCHARGE SECURED CREDITORS TO PAY MANAGEMENT FEES AND EXPENSES OF RESOLUTION PROCESSING, LLC, FILED BY OFFICIAL COMMITTEE OF UNSECURED CREDITORS [Dk. No. 557]; AND (2) RESERVATION OF RIGHTS REGARDING TRUSTEE'S MOTION TO SURCHARGE SECURED CREDITORS TO PAY MANAGEMENT FEES AND EXPENSES OF RESOLUTION PROCESSING, LLC, FILED BY OHP-CDR, LP AND PURCHASECO 80, LLP [Dk. No. 558] will be served or was served (a) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (b) in the manner stated below:

| manner stated below: | r the judge in chambers in the form of | 2000 2(d), and (b) in t | |
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| F.R.Civ.P. 5 and/or controll delivery, overnight mail ser and/or email as follows. Lis | ing LBR, on <u>October 12, 2023</u> , I ser vice, or (for those who consented in | FACSIMILE TRANSMISSION OR EMAIL: Pursuar ved the following persons and/or entities by persons writing to such service method), by facsimile transmiclaration that personal delivery on, or overnight mail and is filed. | al nission |
| RONALD REAGAN FEDER | PY LARKSON IPTCY COURT, CENTRAL DISTRIC RAL BUILDING AND COURTHOUSE ET, SUITE 5130 / COURTROOM 50 | | |
| | | ☐ Service information continued on attached | d page |
| I declare under penalty of p | erjury under the laws of the United S | States that the foregoing is true and correct. | |
| October 12, 2023 Date | Layla Buchanan Printed Name | /s/ Layla Buchanan Signature | |

This form is mandatory. It has been approved for use by the United States Bankruptcy Court for the Central District of California.

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